

September 28, 2012

Honorable Mike Marshall,
Secretary of the Senate
Honorable W. Charles Smithson,
Chief Clerk of the House
General Assembly of the State of Iowa
Des Moines, IA 50319

Dear Messrs. Marshall and Smithson:

Enclosed is the Iowa Public Employees' Retirement System's report for the fiscal year ended June 30, 2012, on divestment activities related to companies doing business in Iran. This annual report is required by section 12H.5 of the Code of Iowa.

The report describes IPERS' implementation of the Iran divestment program and provides information on IPERS divestment activities and costs. The report also includes the list of prohibited companies that was in effect as of June 30, 2012.

Sincerely,



Donna M. Mueller
Chief Executive Officer

Enclosure

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
ANNUAL REPORT
ON IRAN DIVESTMENT
For the Fiscal Year Ended June 30, 2012

Iowa Code chapter 12H requires the Iowa Public Employees' Retirement System (IPERS) to scrutinize companies with business operations in Iran, and under certain circumstances, to restrict its purchases of, and/or divest of, holdings of any company determined to have active business operations in Iran. Chapter 12H specifies certain procedures to be followed in engaging companies doing business in Iran, and requires IPERS to annually report to the General Assembly on its activities concerning the Iran divestment law.

Implementation

IPERS develops its list of scrutinized companies using the research and findings of IWF Financial (IWF). IPERS and several of the public entities covered under Chapter 12H contracted with IWF to provide these services. IWF is a research firm that specializes in researching and monitoring the activities of companies against various types of environmental, social and governance screens. IWF uses the criteria established in Chapter 12H to screen various sources of publicly available information in order to provide IPERS with a list of scrutinized companies. IWF also assists IPERS in evaluating any follow-up responses from scrutinized companies.

IPERS sends a letter to each company believed to have active business operations in Iran and asks them to discontinue their operations in the Iran. Companies are given the opportunity to provide evidence that contradicts IWF's findings. The letter also notifies the company that IPERS will prohibit further investment and/or divest of its holdings in the company's securities if the company does not meet the requirements of the law. If the company does not respond, or fails to provide convincing evidence within the time period established by law, then IPERS places the company on its prohibited companies list. The prohibited companies list is updated quarterly, and is provided to the public on IPERS' Web site at www.ipers.org.

IPERS' investment managers are prohibited from purchasing securities issued by companies on the prohibited companies list. Investment managers that have any existing direct holdings¹ of a prohibited company must sell (divest) the position within

¹ It is important to note that chapter 12H makes a distinction between direct holdings and indirect holdings. *Direct holdings* are securities directly owned and held in IPERS' name. *Indirect holdings* refer to situations where IPERS may indirectly own an interest in a security because of its ownership of shares in a commingled investment vehicle, such as a mutual fund. The General Assembly recognized that it may not be possible to efficiently divest of prohibited companies held in a commingled fund, and exempted indirect holdings from many provisions of chapter 12H. IPERS is required to analyze the prudence of moving its indirect holdings to Iran-free commingled funds if such an option exists. See section on Indirect Holdings.

18 months of the date the company was first notified. An investment manager has the discretion to decide when to sell its holdings within the 18 month period.

Chapter 12H requires IPERS to engage only those scrutinized companies in which it has direct holdings. However, IPERS has opted to send letters to all scrutinized companies, and will place a scrutinized company on the prohibited companies list if warranted, regardless of whether or not IPERS has any direct holdings in the company. This is done because IPERS prefers to engage a company and determine whether it is a prohibited company pursuant to the law's criteria before an investment manager purchases any securities of such company. IPERS' investment managers want to know if a company is prohibited before buying it - not afterwards.

Chapter 12H also requires IPERS to contact companies that have inactive business operations in Iran. However, the purpose of such letter is to encourage them to keep their business activities inactive until state-sponsored terrorism stops in Iran. IPERS uses information from IWF to determine which companies may have inactive business operations in the Iran. Currently, no companies have inactive business operations in Iran as defined in Chapter 12H.

Fiscal Year 2012 Engagement Activity

The following chart summarizes the numbers of companies contacted by IPERS in fiscal year 2012 pursuant to chapter 12H.

Time Period	Number
Mar. 31, 2012	81
June 30, 2012	1

Letters were sent to 82 companies under scrutiny for active business operations. IPERS received responses from 17 companies. During fiscal year 2012, eighty-one companies were added to the prohibited companies list, and 9 companies were removed. The companies were removed because IPERS, with the assistance of IWF, concluded that they no longer met the criteria established in Chapter 12H. IPERS' prohibited companies list in effect as of June 30, 2012 is included as Appendix A to this report.

Chapter 12H also requires IPERS to send reminder letters to companies on the prohibited companies list and encourage them to transform their operations to inactive operations. Since this was the initial year of implementation for the Iran divestment program, this task was completed in September 2012 for the 63 companies on IPERS' prohibited companies list on July 27, 2012.

Fiscal Year 2012 Divestment Activity

Since the publication of the first prohibited companies list on April 27, 2012, divestment has occurred in seven equity securities, beginning with the sales of 964,617 shares of stock with a combined value of \$9,106,517.45. The commissions on these sales amounted to \$9,510.39 in fiscal year 2012. Additionally, two bonds with total par value of \$660,000 (market value of \$708,800) were divested in fiscal year 2012. Since bonds trade on the basis of a bid/ask spread without commissions, we cannot know the imputed trading cost to the fund from these two bond sales, but it would be a small amount.

Indirect Holdings

As noted earlier, chapter 12H makes a distinction between direct and indirect holdings. IPERS had indirect holdings in 14 stocks of companies listed on the prohibited companies list on June 30, 2012 that were valued at \$33,574,269.39. Additionally, IPERS had indirect holdings in the bonds of 2 companies listed on the prohibited companies list on June 30, 2012 that were valued at \$3,267,490.59. In total, IPERS had \$36,841,759.98 worth of indirect holdings as of June 30, 2012, which comprised 0.16% of the total IPERS fund.

While indirect holdings are generally exempt from most of the provisions of the law, IPERS is required by law to evaluate the prudence and potential costs associated with moving its indirect investments to funds that will comply with chapter 12H, if any such vehicles exist. IPERS investment staff collected information concerning the potential cost of moving its indirect holdings to Iran-free alternatives in the second quarter of 2012 and presented such information to the IPERS Investment Board at its June 21, 2012 meeting. The Investment Board agreed with staff that it was not prudent to incur the trading costs required to eliminate relatively small indirect exposures to prohibited companies.

Fiscal Year 2012 Program Costs

The cost to implement the Iran monitoring and divestment program have been very low so far. IPERS has not incurred any staff overtime costs during the implementation phase of the program. IPERS has incurred third party costs for research services through IWF of \$5,600.00. Also, as mentioned earlier, IPERS in fiscal year 2012 has incurred commission costs of \$9,510.39 to divest of stocks in prohibited companies.

For More Information

See IPERS' Web site at www.ipers.org/investments/restrictions.html for quarterly updates throughout the year. IPERS staff can be reached by e-mail at investments@ipers.org or by telephone at 515-281-0030.

Appendix A

Iowa Public Employees' Retirement System's Iran Prohibited Companies List

April 27, 2012

	<u>Divestment Date *</u>
» Aban Offshore Ltd.	July 27, 2013
» Aker ASA	July 27, 2013
» Aker Solutions ASA	July 27, 2013
» Alstom	July 27, 2013
» Areva	July 27, 2013
» Bharat Petroleum Corporation Ltd.	July 27, 2013
» BP plc	July 27, 2013
» Chadormalu Mineral & Ind. Co..	July 27, 2013
» China Nonferrous Metal Industry's Foreign Eng. And Const. Co. Ltd.	July 27, 2013
» China Oilfield Services	July 27, 2013
» China Petroleum & Chemical Corp	July 27, 2013
» Clontarf Energy PLC	July 27, 2013
» Daelim Industrial	July 27, 2013
» Daewoo Shipbuilding & Marine Engineering	July 27, 2013
» Dietswell Engineering	July 27, 2013
» Dominion Energy PLC	July 27, 2013
» Doosan Co., Ltd	July 27, 2013
» Doosan Heavy Industries and Construction	July 27, 2013
» Edison Spa	July 27, 2013
» Exmar SA	July 27, 2013
» Gail (India) Ltd.	July 27, 2013
» Gas Natural SDG	July 27, 2013
» Gazprom	July 27, 2013
» Gazprombank OAO	July 27, 2013
» GS Engineering & Construction Corp	July 27, 2013
» GS Holdings	July 27, 2013
» Honeywell International, Inc.	July 27, 2013
» Ilyushin Aviation Complex	July 27, 2013
» Ina-Industrija Nafte DD	July 27, 2013
» Indian Oil Corporation Ltd.	July 27, 2013
» Iran Power Plant Projects Managements Co.(MAPNA)	July 27, 2013
» Itochu Corporation	July 27, 2013
» Johnson Matthey PLC	July 27, 2013
» JSC Gazprom Neft	July 27, 2013
» KEC International Ltd.	July 27, 2013
» LG International	July 27, 2013
» Liquefied Natural Gas Ltd	July 27, 2013
» Lundin Mining Corp.	July 27, 2013
» Maire Tecnimont S.p.A.	July 27, 2013
» MAN SE	July 27, 2013
» Mitsui & Co. Ltd	July 27, 2013
» Mitsui Engineering & Shipbuilding Co. Ltd.	July 27, 2013
» MMC Corp Bhd	July 27, 2013
» MOL Magyar Olaj-es Gazipari Nyrt	July 27, 2013
» Motor Sich	July 27, 2013
» Nagarjuna Fertilizers & Chemicals Ltd.	July 27, 2013
» National Aluminium Co. Ltd.	July 27, 2013
» Oil & Natural Gas Corporation Ltd.	July 27, 2013
» Oil India Ltd	July 27, 2013
» OMV AG	July 27, 2013
» Outotec Oyj	July 27, 2013
» PetroChina Co. Ltd.	July 27, 2013
» Petrofac	July 27, 2013

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Iran Prohibited Companies List**

April 27, 2012

	<u>Divestment Date *</u>
» Petroleo Brasileiro S.A.	July 27, 2013
» Petronet LNG Ltd.	July 27, 2013
» Posco	July 27, 2013
» Power Machines	July 27, 2013
» Poyry PLC	July 27, 2013
» PTT Global Chemical Public Co. Ltd.	July 27, 2013
» PTT Public Company Limited	July 27, 2013
» Saipem Spa	July 27, 2013
» Shipping Corporation of India Ltd.	July 27, 2013
» SK Networks Co. Ltd.	July 27, 2013
» SNC - Lavalin Group Inc.	July 27, 2013
» Technip	July 27, 2013
» Toyo Engineering Corporation	July 27, 2013
» Tupolev Oao	July 27, 2013
» Turboatom	July 27, 2013
» Union Resources Ltd	July 27, 2013
» United Aircraft Corporation	July 27, 2013
» Weir Group plc	July 27, 2013
» Zio Podolsk Machinery Plant	July 27, 2013

» Denotes companies with active business operations. There are no companies with inactive business operations. Note: not all of these companies are held by IPERS.

* Denotes deadline for divesting of security.